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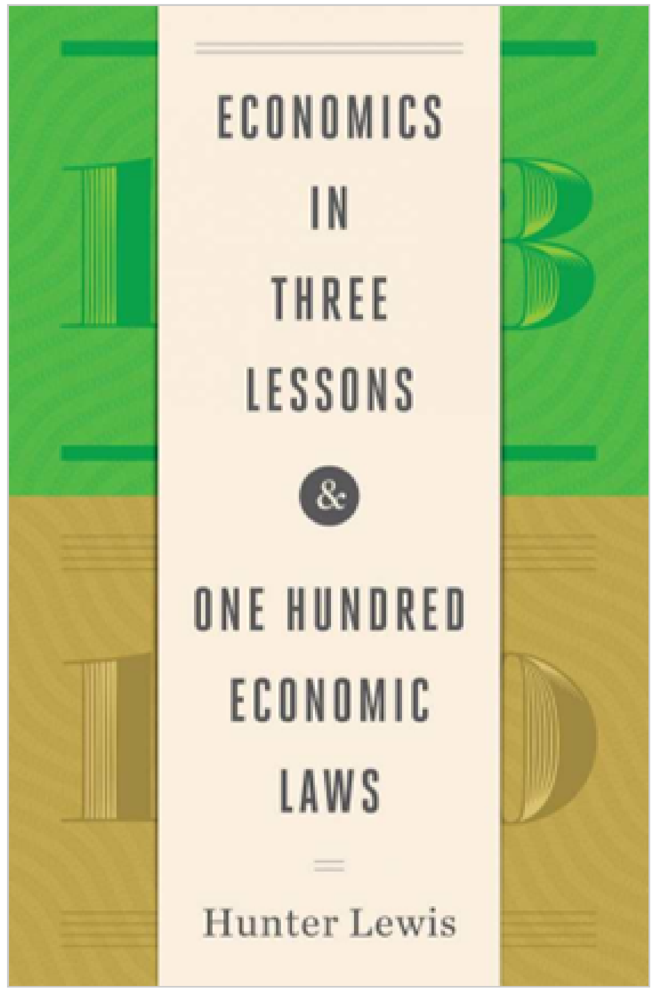
Free prices: the key to a successful economy

Economics in Three Lessons & One Hundred Economic Laws. By Hunter Lewis. Axios Press, 2017, 403 pp., $15.00 hardcover.



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The author of this book, Hunter Lewis, is the cofounder and former CEO of the global investment firm Cambridge Investments, LLC. He is also the coinventor of what became known as the American University style of institutional investing. Lewis has written for the *New York Times*, *The Times of London*, the *Washington Post*, and the *Atlantic Monthly*. His *Economics in Three Lessons* is a "sequel" to Henry Hazlitt's classic *Economics in One Lesson*, a 1946 book about free-market economics. The one lesson in Hazlitt's book is as follows: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups." Lewis espouses a similar philosophy in his book, but refines it to three lessons. He also describes 100 laws that follow from these lessons, with 80 of those laws actually being corollaries of only 20 laws.

The first of the three lessons is titled "Sustainability." Much of the single chapter devoted to this lesson is a long quotation from Hazlitt's book, including the quote cited above, and reflects what Lewis means by sustainability. In this long passage, Hazlitt discussed public works, stating that some of them (e.g., police and fire departments) are necessary, but that public works used primarily as a means of providing employment (such as those established during FDR's New Deal) are of little or no value. For every public sector job created by such public works, argued Hazlitt, a private sector job is destroyed somewhere else. Hazlitt's long quotation emphasizes the importance of thinking long term rather than short term. The author writes that this difference is what separates good and bad economics. Without naming any names, he states that there are supposedly brilliant economists who, citing John Maynard

Keynes' statement that "in the long run, we are all dead," deprecate savings and recommend massive government spending. But Hazlitt warns that there will ultimately be dire consequences from this short-term thinking, and, even if these consequences do not affect us, they will affect our children and future generations.

The book's second lesson is titled "The free price system." In laying out this lesson, Lewis states that "the most reliable barometer of economic honesty is to be found in prices." Any attempts to manipulate or control prices, claims the author, will end up in failure, because the economy will not be able to function properly. In fact, such efforts have often ended up hurting the very groups they were intended to help. More than once Lewis cites an example from 18th century France. At the time, wheat shortages in the country had driven the price of bread higher, so the peasantry was struggling to afford the cost. In response, the French government placed price controls on bread. Realizing that they would now have to sell their wheat at a loss, farmers stopped planting, and the price of bread rose even higher. According to Lewis, we now know that, just like the French regulatory intervention, government price controls do not work. Imagine government officials trying to figure out what the prices of all the commodities and services in a country's economy should be. Wouldn't it be much easier and better just to let a free market determine what these prices should be by the efficient allocation of capital and labor?

We hear so much these days about income and wealth inequality and how important it is to reduce inequality through wealth redistribution. Lewis claims that any government-led effort of this kind will ultimately be a failure. Wealth is not the product of a zero-sum game in which the gain of some people has to be balanced by the loss of others. Rather, it is created through hard work and investment, and it is possible for all segments of society to benefit from such creation. To reinforce this view, Lewis quotes the well-known economist Milton Friedman: "Nowhere is the gap between rich and poor wider, nowhere are the rich richer and the poor poorer, than in those countries that do not permit the free market to operate."

The third lesson presented in the book is titled "Enemies of the free price system." Lewis dedicates a few chapters to discussing and denouncing "crony capitalism," another term that has appeared frequently in recent media coverage. Crony capitalism is an economic system characterized by close, mutually advantageous relationships between business leaders and government officials. One particular example Lewis cites is President Barack Obama's stimulus bill of 2009. This bill provided for an $800 billion stimulus that was intended to revive the economy, which had been devastated by the collapse of some investment firms and the near-collapse of the housing market and several banks. Lewis claims that much of the money went to select state and local governments and private-interest donors such as the green energy company Solyndra. The "cash for clunkers" program, designed to encourage consumer spending on more fuel-efficient vehicles, was another government program that turned out to be ineffective. The point Lewis aims to convey is that regulations on business have their place, but they should be kept to a minimum.

The second part of the book is devoted to Lewis's 100 economic laws (counting the 80 corollaries). Of the 20 key laws in the compendium, three in particular seem to conform most closely to the three economic lessons. The first of these is the Law of Prices, which states that "if we wish to cooperate on a voluntary basis, we must have shared, workable, flexible prices." In discussing this law, Lewis uses a quote from Matt Ridley's book *Genome*: "The illusion that economies run better if someone is put in charge of them has done devastating harm to the wealth and health of peoples all over the world, not just in the former Soviet Union, but in the West as well." The second law is the Law of Profit and Wages. Many people today rail against companies that they claim make "obscene profits." However, Lewis claims that any government action to restrict profits in a particular industry will decrease the number of companies willing to engage in that industry, thereby reducing supply and most likely increasing prices—a result contrary to the one intended. Moreover, because companies compete in a free market, their primary way of increasing profits is to become more efficient and cut costs. The final law that Lewis emphasizes is the Law of the Non-Neutrality of Money, which suggests that “injecting new money into the economy from any source…by definition cannot be neutral,” that is, it will favor some groups over others. Thus, Lewis opposes any type of fiscal stimulus program, even the “quantitative easing” that Federal Reserve chairman Ben Bernanke put in place after the 2007–09 financial crisis. To sum up the 100 laws into one, Lewis writes that “if you want a thriving economy, protect free and flexible prices.”

The book advocates policies that few, if any, governments, foreign or domestic, have followed faithfully. However, evidence that these policies actually work can be found in the historical experiences of Singapore and South Korea. Although these countries were quite poor 60 years ago, today they are very prosperous, with per capita income in Singapore being higher than that in the United States. This transformation occurred primarily because both countries became bastions of free trade and free markets. Whether in agreement with Lewis’s economic philosophy or not, readers will find his arguments compelling and worthy of debate.